

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

THE APPLICATION OF THE MONROE COUNTY)
WATER DISTRICT OF MONROE COUNTY,) CASE NO. 7984
KENTUCKY FOR APPROVAL OF AN INCREASE)
IN RATES CHARGED FOR WATER SERVICE)

O R D E R

On September 30, 1980, the Monroe County Water District (hereinafter Applicant or Monroe County) filed an application with this Commission requesting an increase in the rates it charges for water service. The proposed rates would produce additional revenue of \$20,284 annually, an increase of 36% based on test year revenue from water sales. Applicant stated that the adjustment in rates was necessary (1) to offset the increased cost of purchased water; (2) to enable the District to attain a sound financial position; and (3) to ensure the financial integrity of the District.

A hearing in this matter was held January 6, 1981. The Attorney General's Consumer Intervention Division was the only intervening party. Because of deficiencies in publication (notice) of the proposed rates and the date, time and place of the hearing, a further hearing was held March 12, 1981 and proof of publication has been filed.

COMMENTARY

Monroe County Water District is a non-profit water distribution system organized and existing under the laws of the Commonwealth of Kentucky. Monroe County Water District serves approximately 430 consumers in Monroe County, Kentucky. Applicant purchases all of its water from the City of Tompkinsville and has no production facilities of its own.

TEST YEAR

Applicant proposed and the Commission has adopted the twelve month period ending June 30, 1980, as the test period for determining the reasonableness of the proposed rates. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

REVENUE REQUIREMENTS

Applicant proposed several adjustments to test year operating expenses as shown on the Operation and Maintenance Expense schedule of its application. The adjustments were proposed to (1) normalize purchased water costs, repairs and maintenance expenses, and annual audit fees; (2) to reflect projected increases in the cost of utilities, salaries and wages, Commissioners' mileage and meeting expenses, and water testing expenses based on inflation projections for the next two to four years; and (3) to reflect increases in postage costs based on projected customer growth. The Commission is of the opinion that the proposed expense adjustments for anticipated inflation and customer growth are based on speculative projections rather than known increases in expenses and therefore are not accepted herein for rate-making purposes. The Commission has accepted the remainder of Applicant's adjustments to expenses and has further adjusted revenues and expenses in the following manner:

1. Applicant's Tax Expense of \$2,132 has been eliminated for rate-making purposes. The evidence of record indicates that these taxes are sales and school taxes for which Applicant merely acts as a collection agent. Inasmuch as the collected tax is not revenue generated through Applicant's water service rates, it should not be reported as such; therefore, the Commission has reduced Applicant's revenues by \$2,132 while reducing expenses by a similar amount.

2. Operating revenues and expenses have been adjusted by \$5,500 to eliminate test year service connection fees for rate-making purposes. The treatment of service connection fees, as

prescribed by the NARUC Uniform System of Accounts and adopted by this Commission, is to capitalize these items and record them as contributed in aid of construction. Therefore, Applicant's test year Operating Revenues and Expenses are overstated in that the connections fees and the related costs were charged to revenues and expenses, respectively. Inasmuch as Applicant could not provide the actual cost of these service connections, the Commission, for rate-making purposes, has utilized the \$5,500 charged the rate-payers as the approximate cost and has reduced operating expenses accordingly.

3. The Commission has reduced Applicant's proposed depreciation expense by \$4,840 for rate-making purposes. Applicant had proposed this amount as depreciation on contributed property for determining required revenues. The Commission is of the opinion that charges for depreciation expense on contributed property allow a utility to recover capital which was provided through contributions and, therefore, should not be allowed for the purpose of determining rates.

4. The Commission has increased Operating Expenses by \$1,680 to reflect rental expenses which Applicant had not included in its proforma adjustments.

5. The Commission has increased Operating Expenses by \$1,879 to reflect a three-year amortization period for those costs incurred by Applicant as a direct result of these rate case proceedings.

The effect of these adjustments on Net Income is as follows:

	<u>Test Year</u>	<u>Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 61,457	\$ (7,632)	\$ 53,825
Operating Expenses	73,183	(18,261)	54,922
Operating Income	\$(11,726)	\$ 10,629	\$(1,097)
Interest Expense	9,667	4,133	13,800
Interest Income	517	-0-	517
Net Income	\$(<u>20,876</u>)	\$ <u>6,496</u>	\$(<u>14,380</u>)

The Commission is of the opinion that Applicant's adjusted level of Net Income is inadequate and would impair Applicant's financial integrity. In order to remain on a sound financial basis, Applicant should be allowed to increase its annual revenue by \$20,189 above adjusted test year levels. This increase will provide Operating Revenues of \$74,014 and will be adequate to allow Applicant to pay its operating expenses found reasonable for rate-making purposes, service its debt, and maintain an adequate reserve for any extraordinary repair or capital expenditures.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates for water service set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenues of approximately \$74,014 and are the fair, just, and reasonable rates for service rendered by Applicant on and after the date of this Order.

IT IS THEREFORE ORDERED, that the rates proposed by Monroe County Water District are hereby denied.

IT IS FURTHER ORDERED, that the rates set out in Appendix "A" attached hereto and made a part hereof are approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED, that Monroe County Water District shall file with this Commission, within twenty (20) days from the date of this Order, its revised tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky this the 27th day of March, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Did not participate
Vice Chairman

Don Harrison
Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO.
7984 DATED MARCH 27, 1981

The following schedule of rates are hereby prescribed
for the customers served by the Monroe County Water District
All other rates and charges not mentioned specifically herein
shall remain the same as those in effect prior to the date
of this Order.

5/8" X 3/4" Meter Service

Rate Block	Rate
First 2,000 Gallons	\$ 8.00 (Minimum Bill)
Next 3,000 Gallons	3.00 per 1,000 Gallons
Next 5,000 Gallons	2.50 per 1,000 Gallons
Over 10,000 Gallons	2.00 per 1,000 Gallons

1" Meter Service

Rate Block	Rate
First 5,000 Gallons	\$ 18.20 (Minimum Bill)
Next 3,000 Gallons	3.00 per 1,000 Gallons
Next 5,000 Gallons	2.50 per 1,000 Gallons
Over 13,000 Gallons	2.00 per 1,000 Gallons

2" Meter Service

Rate Block	Rate
First 16,000 Gallons	\$ 43.20 (Minimum Bill)
Next 3,000 Gallons	3.00 per 1,000 Gallons
Next 5,000 Gallons	2.50 per 1,000 Gallons
Over 24,000 Gallons	2.00 per 1,000 Gallons